

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7986**

**BILL NUMBER:** HB 1591

**DATE PREPARED:** Mar 31, 2001

**BILL AMENDED:** Mar 29, 2001

**SUBJECT:** Tax abatement.

**FISCAL ANALYST:** Bob Sigalow

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**FUNDS AFFECTED:**     **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill specifies that the provision limiting a property tax abatement for new manufacturing equipment to the extent that it would cause the assessed value of all personal property of the owner in the taxing district in which the equipment is located to be less than the assessed value of all personal property of the owner in that taxing district in the immediately preceding year does not apply to new manufacturing equipment located in Gibson County if the total cost of all new manufacturing equipment placed into service in the county by the owner exceeds \$500 M and the economic revitalization area in which the new manufacturing equipment was installed was approved by the designating body before January 1, 2001.

The bill also provides that in the case of a taxpayer specified in the bill, an abatement deduction is not allowed with respect to new manufacturing equipment to the extent the deduction would cause the assessed value of all real and personal property of the owner in the taxing district to be less than the "incremental net assessed value" for that year. It specifies that if in a particular year the taxpayer's abatement deduction is limited by this provision, the deduction shall be carried over and allowed as a deduction in succeeding years. The bill specifies that the abatement deduction may only be carried over during the period of the abatement deduction specified by statute or the period that was originally specified in the resolution adopted by the designating body.

**Effective Date:** March 1, 2001 (retroactive).

**Explanation of State Expenditures:**

**Explanation of State Revenues:** The State levies a one cent tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) Under current law, a property tax abatement for new manufacturing equipment may not cause a taxpayer's assessed valuation to be lower than it was in the preceding year. Under this provision, a taxpayer in an ERA approved before January 1, 2001 who has placed new equipment into service in Gibson County with a total cost exceeding \$500 M would not be subject to this minimum assessment. Instead, the taxpayer would be subject to a minimum net assessment equal to: (1) the TIF AV on real and personal property required to generate sufficient revenue for bond payments; plus (2) \$54.5 M AV. If there is any unused ERA deduction in a year as a result of the new limitation, it could be carried over to subsequent years. No deduction may be carried over to a year after the last year that the ERA deduction is applicable. This bill would be effective with taxes first paid in CY 2002.

Since tax abatements cannot reduce the existing tax base under current law, an abatement does not cause an increase in the property tax rate. As the abated value is gradually placed on the tax rolls, part of the property tax burden is shifted from all taxpayers to the owners of the abated property in the form of a reduced tax rate.

However, if the abatement reduces the taxpayer's existing assessment under this provision, then the property tax rate for all taxpayers would rise to compensate for the reduced valuation base, shifting part of the tax burden from the taxpayer receiving the deduction to all taxpayers. The tax rate would still be reduced over time as the property's value is gradually placed on the tax rolls.

One taxpayer has been identified as qualifying for the increased abatement under this provision. The CY 2001 Pay 2002 AV in question amounts to an estimated \$17 M while the CY 2002 net property tax shift could amount to \$1.4 M. This is a ten year abatement so there would be a shift each year, although the shift amount would diminish over the ten years. The new minimum net AV in the bill would help to spread the effects of the bill on assessed values and tax rates over the life of the ERA and to ensure that the redevelopment bonds in the TIF area would not be in jeopardy.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

**State Agencies Affected:** State Board of Tax Commissioners.

**Local Agencies Affected:** Gibson County Auditor; Civil taxing units and school districts in Patoka Township, Gibson County

**Information Sources:**